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(U) CHINA-WESTERN EUROPE: ZHAO'S VISIT EMPHASIZES
COMMERCIAL TIES

BUREAU OF
INTELLIGENCE
AND RESEARCH

CURRENT
ANALYSES

Summary

People's Republic of China Premier Zhao Ziyang visited the United Kingdom, the Federal Republic of Germany, and the Netherlands from June 2 to 19. The visit, like Zhao's visit last year to six West European countries and the European Community, was intended to strengthen economic and commercial ties and to seek broader support for ending controls by COCOM (the Coordinating Committee for Multilateral Security Export Controls) on technology exports to China. Apart from its hortative purpose, the journey appears to have been intended to give Zhao further exposure as a world statesman. Relatively few agreements were reached during the trip.

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Results of the Visit

Like his visit to Western Europe last year, and that of President Li Xiannian last autumn, Zhao's recent visit appears to have been intended largely to show the flag and to give greater visibility to the prospects for trade and investment in the future rather than to yield quick and glittering results.

While Zhao was in the UK, the two sides announced signature of accords on economic and technological cooperation and also on cooperation in the area of nuclear energy. The PRC and the FRG Governments signed accords on double taxation and financial cooperation, a protocol on economic cooperation, and a memorandum on nuclear cooperation. While in the Netherlands, Zhao signed an agreement on the protection of investments. The agreements

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on cooperation in the economic and nuclear areas appear to have been largely statements of good intentions with little substantive detail.

Zhao's public statements contained several major themes intended to reinforce China's message of recent years to the Europeans. In the economic area, Zhao said that China wants to enlarge Western Europe's share of China's foreign trade and held out the prospect of broad and mutually beneficial cooperation, if only the West Europeans would lower their prices and also provide better credits and more technology. This was backed up by an assertion in Peoples' Daily that China had made a "major policy decision to establish a long-term, stable, cooperative relationship with the West European countries."

In the political area, Zhao encouraged the formation of a "united and strong Europe which takes its destiny into its own hands," and spoke of the need for the Europeans to join forces "to protect their own security." Zhao largely avoided controversial issues and attempted to please China's friends in both West and East Germany by speaking platitudes on the question of German reunification, saying that it required "patient consultations." He met with opposition politicians in Britain and West Germany, telling a representative of the Green Party that China and the Greens have "much in common" on the question of peace.

On international issues, Zhao took a firm position on the need for the USSR to remove the "threats to China's security." He asserted the principles of China's independent foreign policy, stating that the PRC will never join in an alliance or in strategic relations with a big power. He condemned the "hegemonist" policies pursued by the US and the USSR and stated that the US-Soviet arms race "jeopardizes the security of the European countries."

The main purpose of Zhao's visit, however, was to focus European attention on the prospects for enhanced Sino-European economic and commercial cooperation. In the past year the PRC has put considerable effort into developing commercial and technical contacts with Western Europe. According to a [redacted]

[redacted] the Chinese have said that they hope to increase Western Europe's share of China's trade to 25 percent (up from an estimated 14 percent in 1984), to reduce what they see as over-dependence on trade with the US and Japan.

To this end, the PRC has repeatedly urged the West Europeans to become more competitive in their pricing and their willingness to extend low interest credits and also to be willing to transfer more of their advanced technology to China. This theme predominated in Zhao's public discussions.

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Background: Chinese Relations With the FRG^{1/}

The PRC has given considerable prominence to relations with all three of the countries on Zhao's itinerary, each for a separate reason. The FRG in particular is looked to by China as a potential source of high technology and, during Chancellor Helmut Kohl's visit to China last October, Zhao invited West Germany to participate in projects in the areas of energy and transportation and also to assist in the renovation of old plants. During Kohl's visit the FRG extended a 50 million DM credit to China and concluded an agreement on the construction of Volkswagen automobiles in China. The West Germans were invited to bid on nuclear power plants in China

In December of last year the FRG was awarded a \$450 million contract to build a hot strip mill as part of the expansion of the Baoshan iron and steel works and had earlier been selected to build a cold rolling mill at Baoshan. According to Xinhua, the two countries have signed 120 contracts for the importation of West German technology with a total value of more than \$1 billion. According to Chinese statistics, PRC-FRG trade turnover amounted to \$2.22 billion in 1984.

During the fourth annual meeting of the PRC-FRG joint committee for economic cooperation in February, Xinhua announced the establishment in Hamburg of a joint trade cooperation office that will be China's "main trade center in Europe" for the importation of advanced technology and equipment from Europe. The FRG-sponsored technical training center in Harbin graduated its first class at the end of 1984, and the two countries have agreed on the establishment of a management training center in Shanghai this year. The two countries have also signed a protocol on cooperation in space science and technology.

The UK

Sino-UK relations have taken on a far warmer tone since the conclusion of the Hong Kong settlement during the visit to Beijing by Prime Minister Thatcher in December 1984. Thatcher received a great deal of Chinese praise for her "foresight, sagacity, and wise policy" in reaching the Hong Kong accord. The Chinese media, moreover, have repeatedly cited this agreement as setting Sino-UK relations "onto a new stage." Since early 1984, moreover, the

^{1/} (U) For further background on Sino-FRG relations, see INR Report 995-AR, "The Federal Republic of Germany and the Race to Beijing," SECRET/EXCLUSIVE DISSEMINATION/NOFORN/NOCONTRACT/PROPIN/ORCON, January 14, 1985.

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Chinese media have praised Thatcher for "readjusting" her foreign policy in order to adopt "a more flexible attitude than before toward the Soviet Union."

The PRC appears to have held off on expanding its economic contacts with the UK until after the Hong Kong accords were signed. According to Xinhua, only nine of the 700 joint ventures approved by China last year were with the UK. The main Sino-UK joint venture at present is the Shanghai-Pilkington glass company, which is to go into operation in 1986. Conversations have also been held on possible cooperation in the area of nuclear power.

In January 1985 China and the UK signed a memorandum of understanding to collaborate in space science and technology, including in the areas of satellite systems, ground stations, and carrier rockets. In March 1985, the visit of a high-level British trade delegation led to the signature of a protocol on cooperation with Rolls Royce for the production of aircraft engines and a memorandum of understanding on collaboration in telecommunications development and construction. The PRC estimates that Sino-UK trade came to \$1.19 billion in 1984, making the UK China's second largest West European customer after the FRG.

The Netherlands

China reduced relations with the Netherlands to the chargé d'affaires level in early 1981 in retaliation for the Dutch sale of two submarines to Taiwan. Relations were restored on February 1, 1984, following a decision in The Hague not to sell more submarines to Taiwan, [REDACTED]

[REDACTED] In November 1984 the PRC sent a trade mission to the Netherlands which signed contracts for \$60 million in Chinese purchases of consumer goods. China has set a goal of increasing such purchases by 30 percent in 1985 and gave high-level attention to an economic cooperation mission that visited in March 1985.

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